

Testimony of the Honorable Clay Sell

**Deputy Secretary
U.S. Department of Energy**

Before the

**Subcommittee on Energy and Resources
Committee on Government Reform
U.S. House of Representatives**

April 6, 2005

Chairman Issa, Congresswoman Watson, and members of the subcommittee, I am honored to be here today, my first testimony before the Congress since being sworn in as Deputy Secretary of Energy. As members of the subcommittee know, the department is charged with a broad mission that is vital to our national, economic and energy security.

The subcommittee asked me to address American energy needs and our national security policy. Energy is the backbone of our economy and having a strong economy is essential to maintaining and strengthening our national security.

These issues are addressed in the context of President Bush's National Energy Policy (NEP). After discussing the development of the NEP, I will focus on the need for Congress to enact energy legislation that comports with the NEP, the President's four major energy objectives, and the President's fiscal policy. I note that the Administrator of the Department's Energy Information Administration appeared before this subcommittee on March 16 and provided extensive material regarding the U.S. energy outlook and the recent experience with energy price volatility.

The National Energy Policy

As you know, during his first two weeks in office, the President put together a Cabinet-level group to look at America's energy problems – which, at the time, were very much in the news. Those problems included rolling power blackouts in California... fears of natural gas shortages that were prompting spikes in prices... and OPEC's announcement of a major cut in oil production.

The National Energy Policy Development Group immediately went to work, and the result of its efforts was the National Energy Policy, which was unveiled in May 2001. The NEP outlines a comprehensive, long-term strategy to produce an integrated energy, environmental and economic policy. The group's members told the President that “to achieve a 21st-century quality of life – enhanced by reliable energy and a clean environment – we must modernize conservation, modernize our energy infrastructure, and increase our energy supplies, including renewables.”

Action by Congress is Needed

Since the policy was announced, many of its recommendations have been implemented and are helping move us toward a more sound energy future. But several of its most important recommendations require action by Congress.

Enacting energy legislation would complete the effort to give the United States its first comprehensive national energy policy in more than a decade. And Secretary

Bodman and I are committed to working with both parties and both Houses of Congress to finally enact energy legislation this year.

On at least three occasions so far this year, President Bush has emphasized the importance of enacting energy legislation.

- In his February 2 State of the Union address, the President said: “Four years of debate is enough: I urge Congress to pass legislation that makes America more secure and less dependent on foreign energy.”
- In a February 8 speech before the Detroit Economic Club, the President said: “It is hard to be in a growing economy if you’re not sure whether or not you got energy, if you’re not sure whether or not there’s cost certainty when it comes to energy. And so that’s why I sent Congress a comprehensive energy strategy almost four years ago. And as I said in the State of the Union the other night, four years of debate is enough. We don’t need debate. We need action when it comes to an energy plan.”
- In a March 9 speech in Columbus, Ohio, the President said: “This country must do more, and it requires legislative approval by the United States Congress. To meet America’s energy needs in the 21st century, we need a comprehensive national energy policy. It’s time for Congress to act, as I said earlier.”

Energy Legislation Must Meet Four Objectives

President Bush believes that a sound energy bill must meet four major objectives: it must promote conservation and efficiency, increase domestic energy production, diversify our energy supply, and modernize our energy infrastructure – while upholding our responsibility to be good stewards of the environment. We believe that meeting these four objectives will go a long way in strengthening our energy security and our national security.

The first objective of a sound energy bill is to encourage the use of technology to improve energy conservation. We are constantly searching for smarter ways to meet our energy needs, so we can fuel more economic growth and reduce our dependence on energy from abroad.

At the Department of Energy and at other agencies, we are supporting dozens of creative technologies that will increase conservation throughout the economy. This is extremely important when you consider that 30 percent of the energy in the average American home is wasted because of things like inefficient lighting and appliances and inadequate insulation. So one of our greatest potential sources of additional energy is the energy we currently waste.

One of these technologies is a device called the smart meter, which shows consumers how much energy they're using – and then calculates exactly what that energy is going to cost. That gives people an incentive to turn the light off when they leave the room, or lower the thermostat when nobody's home.

The federal government is helping consumers make wise decisions at the store through the Energy Star program which allows manufacturers to place an Energy Star label on the most efficient products. And the Administration has proposed tax credits for drivers who choose fuel-efficient hybrid vehicles. Innovations in this country are advancing technology every day, and the President has called on us to use that technology to make America the world leader in energy conservation.

The second objective of a sound energy bill is to encourage more production at home. The need is clear: over the past three years, America's energy consumption has increased by more than three percent, while our overall domestic energy production has actually decreased by about two percent. That means we are relying more on energy supplied by foreign countries. We now get more than half our oil from abroad, and our dependence is growing.

An increasing percentage of our natural gas is also coming from outside our borders, although one recent encouraging development regarding domestic natural gas was last year's Congressional passage of Alaska natural gas pipeline legislation – an action recommended by the NEP and signed into law by the President. Additionally, the Administration, particularly the Federal Energy Regulatory Commission, is moving forward on regulatory action to accommodate the importation of liquefied natural gas (LNG). While we certainly do not want to become overly dependent on LNG, it does represent a needed source of additional supply.

Increasing our energy security begins with a firm commitment to America's most abundant energy resource – coal. Our nation is blessed with enough coal to last another 250 years.

But coal, as we know, presents an environmental challenge. It produces pollutants such as sulfur dioxide, nitrogen oxides and mercury and also produces carbon dioxide, the most common greenhouse gas. We need to deal with the environmental challenges presented by coal, to ensure that it remains a viable part of our energy mix for the future.

In his most recent budget, the President requested funding to bring total expenditures on clean coal research and development to \$1.6 billion over five years. That money will fund innovative projects, such as converting coal into clean-burning gas.

Our most ambitious clean coal project is called FutureGen -- an effort to develop the world's first coal-fired power plant that emits essentially no pollutants or greenhouse gases. FutureGen could be the prototype for the power plant of the future.

An extremely important potential source for new oil is in a relatively small corner of the Arctic National Wildlife Refuge in Alaska. The Congress took an important step forward last month in the effort to open part of this area to environmentally responsible oil and gas development.

ANWR is by far the most promising site for oil in the United States. The Department of the Interior estimates that we could recover more than 10 billion barrels of oil from a small area near the edge of ANWR that was set aside specifically for energy development back when the reserve was established.

Anyone who has pulled up to the gas pumps over the past few weeks knows the effect that rising oil prices are having on the family budget – and on businesses that depend on gasoline, diesel, jet fuel or other petroleum products. We have all heard the reasons: economic growth around the world, especially in countries like China, is boosting demand – and production is having a hard time keeping up.

Demand growth here in the United States is also straining our refining capacity. While domestic refining capacity has expanded at existing refineries by 1.6 million barrels per day from 1995 through 2004, no new oil refineries have been built in this country in nearly 30 years, and since 1995, about 26 uneconomic refineries have shut down. Regulatory requirements make building and running refineries difficult and expensive – and that is one of the issues addressed by the National Energy Policy. They also make gasoline markets less flexible by requiring a multiplicity of fuel types. Existing tight refining capacity is further exacerbated whenever extraordinary events such as the March 23 BP Texas City Refinery incident occurs. That refinery is the third largest in the U.S. and supplies enough gasoline to meet three percent of U.S. demand.

In addition to growing petroleum demand in the U.S., we must recognize that overseas demand growth is putting additional pressure on available supplies. In

particular, China's total demand for petroleum is forecast to rise about 10 percent in 2005 to 2.5 billion barrels. China's crude oil imports are exceeded by the imports of just one other country – the U.S.

Another factor is the increasing percentage of imported oil. The United States has gone from producing all the oil it needed just a few decades ago to importing 56 percent of our oil today. And that number is expected to increase to 68 percent by 2025. U.S. demand for oil has increased by nearly 40 percent since 1970, while – over the same time period – domestic oil production has decreased by 40 percent. So the need to expand our domestic production -- as called for in the National Energy Policy -- is certainly clear.

The third objective of a sound energy bill is to diversify our energy supply by developing alternative sources of energy. If future generations can count on energy in many different forms, they will be less vulnerable to unexpected price spikes or shifts in supply. To create more energy choices, Congress should continue to provide tax credits for renewable power sources such as wind, and continue its strong support for ethanol and bio-diesel, so we can replace foreign oil with fuel grown in the U.S.

In addition to diversifying our energy supply through renewable sources, we also need to promote safe, clean nuclear power. Nuclear power can generate huge amounts of electricity without ever emitting air pollution or greenhouse gases. America hasn't begun construction of a new nuclear power plant since the 1970s, but it's time to take a fresh look at this technology. We know that many people have concerns about the safety of

nuclear power. Yet decades of experience and advances in technology have proved that nuclear power is reliable and secure... and we are developing new generations of nuclear reactors that are even safer than our current facilities.

Over the long term, in order to significantly reduce our dependence on foreign sources of oil, we must replace hydrocarbons as a transportation fuel. That is the basis for the President's Hydrogen Fuel Initiative, which will invest \$1.2 billion over five years on the technology development that will make hydrogen fuel-cell powered cars a reality in the future.

The fourth and final objective of a sound energy bill, as outlined by the President, is to find better, more reliable ways to deliver energy to consumers. In some parts of the country, homes and businesses are receiving their energy through infrastructure built decades ago. Electric transmission lines, and oil and gas pipelines, are deteriorating as the amount of energy they transport continues to grow. These strains on the system lead to higher prices and bottlenecks in delivery. And when just one piece of the power grid fails, it can instantly affect millions of people over thousands of miles.

We saw that impact back in the summer of 2003, when large parts of the Northeast and Midwest, as well as large areas of Canada, were suddenly blacked out because of an outage caused in part by tree branches hitting a power line in Ohio. Over just a few short hours, that blackout cost the U.S. economy billions of dollars. It brought

businesses to a standstill, disrupted people's lives, and vividly illustrated the urgent need for improvements in our electrical system.

Congress can help solve this problem. Current law makes it voluntary – rather than mandatory – for power companies to ensure reliability across the electricity grid. Passage of energy legislation should make reliability rules mandatory and enforceable. Congress also needs to repeal outdated rules that discourage investment in new power infrastructure. And to keep local disputes from causing national problems, the Federal Energy Regulatory Commission should have the authority to site new power lines in certain circumstances. We have modern interstate grids for our phone lines and highways. It is time for America to modernize and expand our electricity grid as well.

Conclusion

The President has set big goals for our energy policy. If Congress enacts energy legislation that meets the President's four objectives, then we will have gone a long way in meeting America's energy needs and in strengthening America's national security.

Thank you again for inviting me to testify before you today, and I look forward to working with you and your colleagues in the days and years ahead. I will be glad to respond to any questions the subcommittee might have.

#